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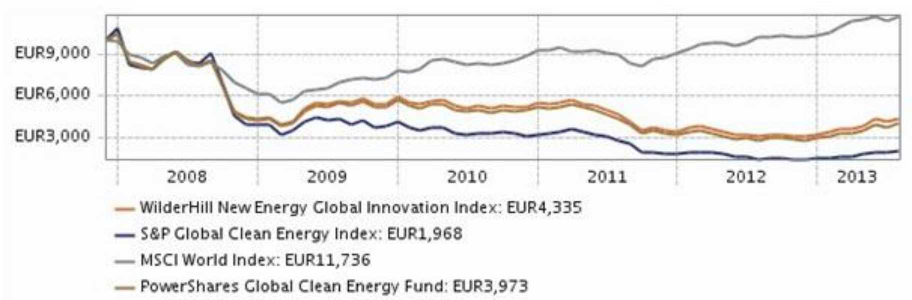
Clean And Alternative Energy Stocks - Momentum With A Strong Fundamental Tailwind

Climate change and environmental pollution have been heavily discussed topics in the economic boom years of the last decade. …. Overoptimism soon led to bubbles in publicly traded instruments that provided exposure to the industry and overinvestment in physical capacities. … Less surprisingly, investors have quickly dumped shares of companies involved in the industry as expectations soured.

Indeed, the abysmal performance of two diversified, popular investible indices on the theme since the financial crisis immediately reveals investors' pessimism. The respective indices are the … and the **WilderHill New Energy Global Innovation Index**. Both indices have performed miserably both on an absolute and relative basis over the last years (excluding the last year), have seen extreme drawdowns of around 80 to 90% from their peaks and show low valuation multiples. ….



Performance of indices, Source: PowerShares

Such an environment of disappointing performance, low profitability and high uncertainty always leads investors to extrapolate and price in chaos. But contrary to what the majority of investors believe, the extreme performance of the indices mentioned above suggests that the probability is high that the worst may already be priced in. ….

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Another essential difference is the number and weighting of index components. The largest company in the WilderHill index accounts for just 2.5% and comprises more than 90 companies, while the … index is heavily concentrated as companies have weights of up to around 10%. As the WilderHill index targets equal-weighting of its constituents, small and mid-caps account for the largest share in the index. Due to the high number of index companies and the resulting diversification, financial instability and defaults of single companies in the index should be no issue for total index performance. Moreover, the high share of small and mid-caps allows profiting from consolidation pressure within the sector as these types of companies are most likely to be taken over by the largest companies ….

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To sum up, the quantitative signals are supported by substantial longer-term fundamental trends that justify an extended continuation of the price momentum of the WilderHill New Energy Global Innovation Index seen recently. Indeed, it looks as if the boom and bust cycle that the sector has seen is coming to an end, entering a new bull period now. The preferred vehicle to invest in the index is the **PowerShares Global Clean Energy Portfolio ETF (PBD)**. As intermediate setbacks are highly likely after a performance of around 50% seen over the last year, a lump sum investment is not appropriate here. Rather scaling into the position over a few months and after major setbacks from previous highs, i.e. intermediate drawdowns of approximately 10% or more, is the most promising entry strategy here to profit from the long-term bull trend.

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